

STATE OF VERMONT
PUBLIC SERVICE BOARD

Joint Petition Of Verizon New England Inc., Certain)	
Affiliates Thereof And FairPoint Communications, Inc.)	
For Approval of Asset Transfer, Acquisition of Control)	Docket No. _____
By Merger And Associated Transactions, Pursuant To)	
30 V.S.A. § § 107, 109, 231 and 311)	

JOINT PETITION

This is a petition by Verizon New England Inc., d/b/a Verizon Vermont ("Verizon New England"), NYNEX Long Distance Company ("NYNEX Long Distance"), Verizon Select Services Inc. ("VSSI"), Bell Atlantic Communications, Inc. ("BACT") (collectively, "Verizon"), FairPoint Communications, Inc. ("FairPoint"), Northern New England Spinco Inc. ("Spinco"), Northern New England Telephone Operations Inc. ("Telco") and Enhanced Communications of Northern New England Inc. ("Newco") for approval of the transfer of Verizon's local exchange and long distance businesses in Vermont to companies to be controlled by FairPoint and for such other approvals as may be necessary to complete the transactions described herein.

As described below, the transactions that are the subject of this petition are designed to establish a separate entity as the holding company for Verizon's local exchange, long distance and related business activities in Maine, New Hampshire and Vermont, distribute the stock of that new entity to stockholders, and immediately merge it with and into FairPoint.

The proposed transfer of Verizon's businesses in Vermont to companies to be controlled by FairPoint will promote the general good of the state, will not result in obstructing or preventing competition and therefore will satisfy the applicable statutory criteria for Public Service Board ("Board") approval. The transaction will have no adverse effect on the services provided to customers in Vermont, who will continue to receive the services currently provided

by Verizon on the same terms. No existing retail service will be discontinued or interrupted, nor will any rates change, as a result of the proposed transaction. As stated below, FairPoint anticipates that existing wholesale arrangements, including contracts and tariffs, will remain largely the same as a result of this transaction. Moreover, FairPoint proposes to assume all of the rights and obligations of Verizon in Vermont, including Verizon New England's obligations arising under the Amended Vermont Incentive Regulation Plan adopted by the Board on April 27, 2006, in Docket Nos. 6959/7142 (the "Amended Incentive Regulation Plan"). FairPoint will meet the broadband deployment commitments of Verizon that it will assume under the Amended Incentive Regulation Plan. Customers will benefit because FairPoint's experience and success in providing telecommunications services in rural and small urban areas will enable it to respond effectively to the current and future needs of Vermont customers. FairPoint plans to strengthen the local operational presence related to the services currently provided by Verizon through the creation of new local service centers within the three-state region, within a year after the transaction closes. FairPoint will retain Verizon's existing employees who provide services in Maine, New Hampshire, and Vermont, thereby ensuring a skilled workforce. It will honor all current collective bargaining agreements with Verizon's union employees and offer employees benefits comparable to those they currently enjoy. In addition, subsequent to the merger, FairPoint expects to add some six hundred positions to provide service across the three states. In short, the transaction will not adversely affect customers and creates an opportunity for further investment in Vermont, as well as Maine and New Hampshire, giving a boost to the local economy in both investment and jobs, and improving service to customers. The Board should accordingly approve this petition and transaction.

I. The Parties

1. Verizon New England is a New York corporation that is an indirect, wholly-owned subsidiary of Verizon Communications Inc. (“Verizon Communications”). Verizon New England provides regulated telecommunications services in Vermont (including local exchange service and exchange access service to approximately 330,000 access line equivalents in the state).

2. NYNEX Long Distance and VSSI are indirect, wholly-owned subsidiaries, and BACI is a direct, wholly-owned subsidiary, of Verizon Communications. NYNEX Long Distance, BACI and VSSI are Delaware corporations and provide interexchange services in Vermont.

3. FairPoint is a publicly-traded telecommunications company, incorporated in Delaware. FairPoint, through its local exchange carrier operating subsidiaries, provides wireline local exchange service and exchange access service to approximately 308,000 access line equivalents (as of September 30, 2006) in 18 states, including Vermont, New Hampshire and Maine. FairPoint’s interexchange carrier subsidiaries provide domestic and international long-distance toll services in 18 states, including Vermont, New Hampshire and Maine.¹

4. Spinco, Telco and Newco are Delaware corporations formed for the purposes of the transactions described herein. Spinco is a direct, wholly-owned subsidiary of Verizon Communications, and Telco is a direct, wholly-owned subsidiary of Verizon New England. Newco is a direct, wholly-owned subsidiary of Spinco.

II. Description of the Proposed Transaction

5. On January 15, 2007, FairPoint entered into an Agreement and Plan of Merger (the “Merger Agreement,” attached, without attachments, as **Exhibit 1**) with Spinco and Verizon

¹ A subsidiary of FairPoint, FairPoint Vermont, Inc., has a Certificate of Public Good and provides intrastate telecommunications service in Vermont.

Communications. The proposed transaction consists of two distinct but immediately sequential parts. First, the following steps will be taken together:

- (i) Verizon New England will transfer its assets, liabilities and customer relationships relating to its local exchange, intrastate toll and exchange access operations in Vermont, New Hampshire and Maine to Telco, a subsidiary of Verizon New England;²
- (ii) NYNEX Long Distance, BACI, and VSSI will transfer their accounts receivable, liabilities and customer relationships relating to their long-distance operations in Maine, New Hampshire and Vermont to Newco, a direct, wholly-owned subsidiary of Spinco, through a series of intermediate transfers;³
- (iii) Verizon New England will transfer the stock in Telco to Spinco through a series of intermediate transfers, such that Telco will become a direct, wholly-owned subsidiary of Spinco;⁴ and
- (iv) Verizon Communications will then distribute the stock of Spinco directly to the shareholders of Verizon Communications, such that Spinco (and therefore Telco and Newco) no longer will be subsidiaries of Verizon Communications.

² The assets and businesses to be transferred to Telco (as well as assets and businesses that are *not* being transferred) are more fully described in a Distribution Agreement between Verizon Communications and Spinco dated January 15, 2007, attached, without attachments, as **Exhibit 2**. The Distribution Agreement and the Merger Agreement refer to Telco as “ILEC Spinco Subsidiary” and Newco as “Non-ILEC Spinco Subsidiary”).

³ In addition, Verizon Internet Services Inc., d/b/a Verizon On-Line (“VOL”), will transfer its customer relationships relating to interstate information services in Vermont to Newco. Those services and the transfer, however, are not regulated by the Board. The assets and businesses to be transferred to Newco (and those that are not to be transferred) are more fully described in the Distribution Agreement.

⁴ Pursuant to the Merger Agreement and the Distribution Agreement, the transaction may be accomplished by having Verizon New England create a new Spinco as a direct subsidiary of it, rather than of Verizon Communications, and that new company would ultimately merge with FairPoint. In that event, (i) Verizon New England would transfer the assets, liabilities, and customer relationships at issue to Telco, which would be established as a Delaware limited liability company rather than as a Delaware corporation, (ii) Verizon New England would transfer its membership interest in Telco directly to Spinco, and (iii) Verizon New England would then transfer the stock of Spinco, through an intermediate step, to Verizon Communications. Under either alternative, Telco will be a wholly-owned subsidiary of Spinco, and Spinco will be a wholly-owned subsidiary of Verizon Communications just prior to the distribution of the Spinco stock to the Verizon Communications shareholders.

6. Immediately following the distribution of the Spinco stock described in step (iv) above, Spinco will be merged with and into FairPoint. FairPoint will be the surviving company (under its existing name), and will own all of the stock of Telco and Newco. As of the closing, the shareholders of Verizon Communications will own approximately 60% of FairPoint, and the shareholders of FairPoint will own approximately 40% of FairPoint. Current FairPoint management will manage and control the day-to-day operations of FairPoint following consummation of the proposed transaction. Verizon Communications will designate up to six of the nine initial directors of FairPoint upon completion of the merger. None of Verizon Communications' nominees may be employees of Verizon Communications, its affiliates or Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless") or any of the Verizon Wireless subsidiaries. A corporate organizational chart depicting the transactions is attached as **Exhibit 3** and a more detailed description of the transaction is attached as **Exhibit 4**.

7. Upon consummation of the transaction, Telco and Newco will own and conduct public service businesses subject to the jurisdiction of the Board. Current customers of Verizon New England, following notification as described below will become customers of Telco and current customers of BACI, NYNEX Long Distance and VSSI, following such notification as described below, will become customers of Newco.⁵

8. Additionally, upon consummation of the transaction, Verizon New England, NYNEX Long Distance and BACI will no longer have any business in Vermont. VSSI will continue to have and do business in Vermont. There are no non-compete agreements as part of this transaction, however, and NYNEX Long Distance, BACI, and VSSI intend to retain their Certificates of Public Good ("CPGs"). Verizon New England does not intend to retain any

⁵ At least 30 days prior to closing, FairPoint (Telco and Newco) will provide the notices required by 47 C.F.R. § 64.1120(e) (for the transfer of customers from another telecommunications provider without obtaining each subscriber's individual authorization and verification), and will submit such notice to the Department of Public Service and the Board. In accordance with such rules, customers will be notified of the transaction and informed that Telco and Newco will be responsible for any carrier change charges associated with this transfer and that they will be transferred to Telco or Newco, as applicable, unless they select a different carrier.

evidence of its authority to conduct a public service business in Vermont.⁶ As stated below, Verizon New England requests that the Board approve any abandonment of service resulting from this transaction. As provided in the Distribution Agreement, other affiliates of Verizon New England that are not part of the transaction will continue to operate their businesses in the state, including Verizon Wireless, Verizon Business Global, LLC and the successors to the former MCI companies.

9. The transaction, including all asset transfers from the Verizon companies to Telco and Newco and the merger with FairPoint, will be transparent to current customers of Verizon in Vermont. Telco and Newco will file new tariff pages appropriate to accomplish the adoption of the rates, terms and conditions in the tariffs under which the Verizon companies have been providing regulated telecommunications services in Vermont, and therefore, customers will continue receiving the same services as they were receiving before the merger. In addition, FairPoint will assume the contracts and customer relationships under which the Verizon companies provided services in the state to their retail customers and assume Verizon's wholesale service obligations, including contracts, to Vermont wholesale customers and to other carriers to the extent applicable.

III. Regulatory Approvals⁷

10. For the reasons stated below, the transfer of assets by Verizon New England, NYNEX Long Distance, BACI and VSSI to effectuate the merger with FairPoint will promote the general good of the state, as provided in Section 109 of Title 30, and the Board should make such a finding and issue a Certificate of Consent thereto under Section 109 of Title 30.⁸

⁶ Verizon New England's authority in Vermont predates the documentation of such authority through a CPG.

⁷ The Petitioners seek herein all Board approvals of the transaction as are required by law, and have stated herein those approvals they believe to be implicated by the terms of the transaction. To the extent the Board determines that other approvals are necessary, the Petitioners request that the Board issue an order granting any and all approvals and authorizations required in connection with or as a result of the transactions described in this petition.

⁸ The affected exchanges are listed in **Exhibit 5**.

11. Through the merger, FairPoint will acquire a controlling interest in companies subject to the jurisdiction of the Board, namely Telco and Newco. This merger will promote the public good, as required by 30 V.S.A. § 107, and will not result in obstructing or preventing competition, and will therefore satisfy the requirements of 30 V.S.A. § 311.

12. In addition, Telco will own and operate a local exchange and exchange access business after the merger, and Newco will also own and operate, among other operations, a business subject to the jurisdiction of the Board. Such ownership and operation will promote the general good of Vermont, as provided in 30 V.S.A. § 231, and Telco and Newco therefore request that the Board issue them Certificates of Public Good under 30 V.S.A. § 231.

13. As a result of the merger, Verizon New England will cease to own or operate any business subject to the jurisdiction of the Board. To the extent that constitutes the abandonment or curtailment of services and facilities in Vermont within the meaning of Section 231(b) of Title 30, it is consistent with the public interest, and the petitioners seek the Board's approval thereof.⁹ Verizon New England also requests pursuant to Section 231(b) of Title 30 that the Board, finding good cause therefor, allow Verizon New England to relinquish, and that the Board revoke any CPG and/or equivalent authorization that may have been granted Verizon New England in the past.

14. Verizon New England was previously certified by the Board as an Eligible Telecommunications Carrier ("ETC") in Docket No. 5918, Order of December 5, 2002, pursuant to 47 U.S.C. § 214(e)(2) and 47 C.F.R. § 54.201. After the merger, Telco will offer the services that are supported by the federal "universal service support" mechanism throughout its territory (the territory formerly served by Verizon New England) using its own facilities or a combination of its own facilities and resold facilities and will advertise the availability of those services using

⁹ To the extent that the Board determines that the transfers of assets by NYNEX Long Distance, BACI and VSSI also constitute abandonment or curtailment of services within the meaning of Section 231(b), notwithstanding retention of their CPGs, those companies request the Board's approval of such abandonment or curtailment as well.

media of general distribution, all as required for ETC certification under 47 U.S.C. § 214(e)(2) and 47 C.F.R. §§ 54.101, 54.201, 54.405, 54.411.

15. Accordingly, the Petitioners request that, pursuant to Section 254(e) of the Telecommunications Act of 1996, 47 U.S.C. § 254(e) and Section 54.201(b) of the Rules of the Federal Communications Commission (“FCC”) (47 C.F.R. § 54.201(b)), the Board designate Telco as an ETC for the service area territory previously designated for Verizon New England. Pursuant to the FCC’s Order on Reconsideration In the Matter of Federal-State Joint Board on Universal Service, Ninth Report and Order and 18th Order on Reconsideration, CC Docket No. 96-45 (FCC 99-306), released November 2, 1999, Telco certifies that it will use federal high-cost support in compliance with said Section 254(e).

16. The transaction must also be approved by several other regulatory bodies in addition to the Board, including the FCC under Sections 214 and 310(d) of the Communications Act of 1934; the New Hampshire Public Utilities Commission and the Maine Public Utilities Commission; and the transaction also requires a filing with the U.S. Department of Justice and the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

IV. The Asset Transfer and the merger will promote the public good and the general good of the state and will not result in obstructing or preventing competition. The Board should approve the Asset Transfer, the merger and all ancillary transactions described herein, all of which satisfy the applicable statutory standards.

17. The proposed transaction is consistent with the public interest and will promote the public good because it will provide benefits to customers in Vermont without any countervailing harms. The transaction will have no adverse effect on the rates, terms, service or operations provided to Verizon’s customers in Vermont or to the customers currently served by FairPoint’s subsidiary, FairPoint Vermont, Inc. None of the local exchanges being acquired by FairPoint from Verizon overlap with any of the local exchanges already served by FairPoint Vermont, Inc., which will remain separate from Telco and Newco and have its own tariffs.

18. As noted above, the transaction will be transparent to Verizon's existing Vermont customers, who will continue to receive the services currently provided by Verizon on the same rates, terms and conditions. No existing Verizon retail service will be discontinued or interrupted as a result of the proposed transaction. In addition, Telco and Newco will not seek to recover through rates the transaction costs or any acquisition premium associated with this transaction. As Telco will assume Verizon New England's obligations under the Amended Incentive Regulation Plan, this will include its agreement not to increase rates for existing services during the term of the Plan.

19. The FCC has observed that asset sales by which smaller carriers acquire local exchanges from larger incumbent carriers generally "d[o] not raise public interest issues" and "are unlikely to raise the potential of competitive harm."¹⁰ The transaction proposed in this joint petition is no exception.

20. FairPoint is a leading and respected provider of telecommunications services to rural and small urban areas across the country with a particular emphasis on the provision of broadband services.¹¹ Incorporated in 1991, FairPoint currently owns and operates 31 local exchange companies, through which it serves approximately 308,000 access line equivalents in 18 states (as of September 30, 2006) including Maine, New Hampshire and Vermont, and has long-term experience in the telecommunications industry.¹² FairPoint combines a strong knowledge of consumers' needs with substantial experience in meeting them, enabling it to operate efficiently and to provide high-quality services, including innovative broadband services, to rural and small urban areas.

21. From a financial perspective, the combined company will benefit from a strong capital position. Over \$1 billion in new equity will be issued in the form of FairPoint common

¹⁰ *Implementation of Further Streamlining Measures for Domestic Section 214 Authorizations*, Report and Order, 17 FCC Rcd 5517 ¶ 33 (2002).

¹¹ FairPoint's current broadband service is available, on average, to approximately 88 percent of access lines served by FairPoint's local exchange networks.

¹² FairPoint has been acquiring telecommunications companies since 1993. Many of the companies it has acquired have been in operation for more than 75 years.

stock to help finance the merger, which will allow FairPoint to lower its leverage as measured as a multiple of EBITDA. This will in turn provide for financial flexibility for ongoing capital investment and the introduction of innovative services. FairPoint expects that the resulting company will have additional free cash flow and will have substantially greater access to capital markets by virtue of its size and market capitalization.

22. FairPoint will increase broadband availability significantly in the three-state region within 12 months after the completion of the merger. FairPoint will bring increased operational focus to the region and will invest in infrastructure in the three states, which will allow FairPoint to be a responsive provider of communications services. In addition, FairPoint will not raise customer rates as a result of this transaction.

23. FairPoint will have a substantial local management presence in Northern New England. Its operating plan and organizational structure call for local management to have significant decision-making authority. This means that policymakers and customers will have the focus of executives and high-level decision-makers within the company.

24. FairPoint has acquired and integrated the operations of over 30 telecommunications companies over the last thirteen years and is an experienced operator of communications companies across the country. FairPoint and Verizon are taking a number of actions to ensure the continuity of service and management through and after the transaction. First, FairPoint, Telco, Newco and a Verizon affiliate have entered into a Transition Services Agreement, attached, without attachments, as **Exhibit 6**, pursuant to which the Verizon affiliate will provide back office services during a transition period following the merger. Second, the parties have agreed that approximately 3,000 employees of Verizon whose primary jobs at the close of the transaction would be to support the local phone business will continue employment with FairPoint after the merger.

25. FairPoint has also retained Capgemini U.S. LLC to aid in transition and cutover planning and the final development and integration of FairPoint's back office systems. This will support FairPoint's efforts to ensure the continued delivery of high quality service to retail and

wholesale customers. Capgemini is a \$9 billion global leader in providing consulting, technology and outsourcing solutions to businesses and governments, with almost 25% of its revenue coming from North America. Capgemini has substantial experience in the telecommunications industry (approximately \$1 billion in worldwide revenues in 2005), providing systems integration services to most of the largest telecommunications providers in the United States and Europe.

26. The proposed transaction also offers benefits to Northern New England by virtue of FairPoint's plans to: create over 600 new positions in the region; increase broadband availability within the first year after completion of the transaction (in addition to assuming Verizon New England's broadband deployment obligations in Vermont); increase local operational presence and institute three new local service centers within Northern New England (a Network Operations Center, an Information Systems Center and an Administrative Center) and to deliver industry-leading customer service focused on the particular needs of Northern New England.

27. FairPoint is committed to maintaining jobs, working with the unions in a collaborative fashion, and continuing to honor Verizon's existing collective bargaining agreements. Verizon will continue to provide retirement benefits for its former, retired employees.

28. FairPoint anticipates that existing wholesale arrangements will remain largely the same as a result of this transaction. For example, Telco will assume those interconnection agreements between Verizon New England and other carriers that relate to service wholly within Vermont, New Hampshire, and Maine. Interconnection agreements of Verizon New England relating in part to service outside of those states will need to be modified to apply to Telco and the other party in Vermont, New Hampshire and/or Maine only, or those agreements will be replicated by Telco with respect to one or more of the three states, following discussion with and required notice to the affected parties and state commissions, as appropriate. In the latter cases, however, FairPoint stands ready to put in place new interconnection agreements on substantially the same terms and conditions, so as not to disrupt existing arrangements. Telco will adopt

Verizon's intrastate access tariffs and rates and assume Verizon's other wholesale tariff obligations in effect as of the time of the closing.

29. Lastly, FairPoint is committed to maintaining a strong and constructive relationship with regulators in the region to insure that it meets its regulatory responsibilities as well as the needs of its customers.

30. The foregoing information demonstrates that FairPoint possesses the requisite financial, technical and managerial capability to own and operate regulated telecommunications companies such as Telco and Newco.

V. Request For Relief

Verizon New England, NYNEX Long Distance, BACI, VSSI, Spinco, Telco, Newco and FairPoint request that the Board:

A. appoint a Hearing Officer to hear, schedule a pre-hearing conference for, and issue notice of the opportunity for hearing, and to make all procedural rulings related to this petition, including scheduling, intervention, the filing of testimony, scope, and discovery, in accordance with 30 V.S.A. §§ 107, 109, 311, and 231;

B. find that the transfer of assets to Telco and Newco will promote the general good of the State of Vermont and issue a Certificate of Consent therefor;

C. find that the ownership and operation by Telco and Newco of their respective regulated businesses in Vermont will promote the general good of Vermont and issue Certificates of Public Good to that effect;

D. designate Telco as an ETC pursuant to 47 U.S.C. § 254(e) and § 214(e)(2) for the service area previously designated for Verizon New England and allow Verizon New England to relinquish its designation as an ETC pursuant to 47 U.S.C. § 214(e)(4) and 47 C.F.R. § 54.205;

E. find that the merger, and the acquisition by FairPoint of a controlling interest in Telco and Newco, will promote the public good, and approve in all respects the transactions required or contemplated by the Merger Agreement, including the execution and performance by

all parties of the Merger Agreement and all ancillary agreements and transactions required or contemplated by the Merger Agreement;

F. find that the merger will not result in obstructing or preventing competition in the purchase or sale of any product, service or commodity in the sale, purchase or manufacture of which Verizon New England, NYNEX Long Distance, BACI, VSSI or FairPoint are engaged;

G. find that any abandonment and curtailment of regulated telecommunications services in Vermont by Verizon New England, NYNEX Long Distance, VSSI or BACI is consistent with the public interest and revoke Verizon New England's Certificate of Public Good and/or equivalent authorization; and

H. approve the transfer of assets and merger and take such other measures as in the Board's judgment are necessary for the full and expeditious resolution of this joint petition.

Respectfully submitted,

VERIZON NEW ENGLAND INC., NYNEX LONG
DISTANCE COMPANY, VERIZON SELECT SERVICES
INC., BELL ATLANTIC COMMUNICATIONS, INC.,
NORTHERN NEW ENGLAND SPINCO INC.,
NORTHERN NEW ENGLAND TELEPHONE
OPERATIONS INC. and ENHANCED
COMMUNICATIONS OF NORTHERN NEW
ENGLAND INC.

By their attorneys:



Bruce P. Beausejour
Alexander W. Moore
185 Franklin Street, 13th Floor
Boston, MA 02110-1585
(617) 743-2265

Peter H. Zamore
Sheehey Furlong & Behm P.C.
30 Main Street, 6th Floor
Burlington, VT 05402-0066
(802) 864-9891

FAIRPOINT COMMUNICATIONS, INC.

By their attorneys:

Shirley J. Linn
Executive Vice President
and General Counsel
521 E. Morehead Street, Suite 250
Charlotte, NC 28202
(704) 344-8150

Nancy S. Malmquist
Downs Rachlin Martin PLLC
90 Prospect Street, P.O. Box 99
St. Johnsbury, VT 05819-0099
(802) 748-8324

Respectfully submitted,

VERIZON NEW ENGLAND INC., NYNEX LONG
DISTANCE COMPANY, VERIZON SELECT SERVICES
INC., BELL ATLANTIC COMMUNICATIONS, INC.,
NORTHERN NEW ENGLAND SPINCO INC.,
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ENGLAND INC.

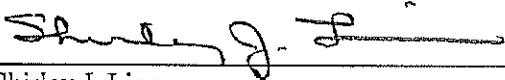
By their attorneys:

Bruce P. Beausejour
Alexander W. Moore
185 Franklin Street, 13th Floor
Boston, MA 02110-1585
(617) 743-2265

Peter H. Zamore
Sheehey Furlong & Behm P.C.
30 Main Street, 6th Floor
Burlington, VT 05402-0066
(802) 864-9891

FAIRPOINT COMMUNICATIONS, INC.

By their attorneys:


Shirley J. Linn
Executive Vice President
and General Counsel
521 E. Morehead Street, Suite 250
Charlotte, NC 28202
(704) 344-8150

Nancy S. Malmquist
Downs Rachlin Martin PLLC
90 Prospect Street, P.O. Box 99
St. Johnsbury, VT 05819-0099
(802) 748-8324